

Message Text

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PAGE 01 LONDON 11339 01 OF 02 042006Z

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ACTION AGR-20

INFO OCT-01 EUR-25 ISO-00 EB-11 COME-00 STR-08 OMB-01

TRSE-00 CIAE-00 INR-11 NSAE-00 RSC-01 PA-04 PRS-01

USIA-15 SWF-02 DRC-01 /101 W
----- 024641

R 041846Z SEP 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3573

INFO USMISSION EC BRUSSELS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

AMEMBASSY PARIS

AMEMBASSY THE HAGUE

UNCLAS SECTION 1 OF 2 LONDON 11339

PASS AGRICULTURE FOR HARTMAN/L&M

E.O. 11652: N/A

TAGS: EAGR

SUBJECT: LIVESTOCK CRISIS - UK

LONDON TOFAS 359 (8/19/74) WHICH COVERED NUMBERS, PRODUCTION, IMPORTS, EXPORTS, PRICES AND DEMAND SHOULD BE CONSIDERED AS AGATTACHE BACKGROUND NOTES TO CURRENT UK LIVESTOCK SITUATION. FOLLOWING FOCUSES SOME RECENT ASPECTS OF THE GROWING CRISIS:

1. PRODUCER CONFIDENCE SEVERELY ERODED:

NUMEROUS REPORTS OF GOOD CALVES FETCHING UNDER 3 POUNDS STERLING PER HEAD REFLECTS JUST HOW FAR PRODUCER CONFIDENCE ABOUT THE FUTURE HAS FALLEN. THE ALL BREED CALF AVERAGE OF 11.06 POUNDS STERLING LAST WEEK COMPARES WITH 16.95 POUNDS A MONTH AGO AND NEAR 50 POUNDS A HEAD A YEAR AGO.

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PAGE 02 LONDON 11339 01 OF 02 042006Z

PARTICULARLY HIT HAVE BEEN DAIRY FARMERS WHOSE BLACK & WHITE

CATTLE ARE NOW MAKING NO CONTRIBUTION TO DAIRY RETURNS. CALF SALUGHTERINGS IN THE FIRST HALF OF 1974 WERE DOUBLE LAST YEAR'S RATE. IN PIGS, THE BREEDING IS STILL DECLINING, DESPITE THE 50 PENCE PER SCORE SUBSIDY, WITH THE ENGLAND & WALES HERD DOWN 12 PERCENT IN THE PAST YEAR. ALSO, THE NORTHERN IRELAND CENSUS RELEASED THIS WEEK SHOWS AN 81 PERCENT DROP IN GILTS IN PIG AND A 37 PERCENT DECLINE IN BREEDING SOWS. EVEN THE LAMB PRODUCERS ARE BEGINNING TO HAVE DOUBTS AND CULLING RATES ARE RISING. THE TURNABOUT FROM THE BUOYANT OPTIMISM OF LAST YEAR HAS BEEN CAUSED BY: (A) THE REVERSAL IN FAT CATTLE PRICES WITH LAST WEEK'S AVERAGE OF 16.40 POUNDS PER LIVT CWT. DOWN FROM 18 POUNDS AT THE END OF JULY AND WELL BELOW THE 1973 AVERAGE OF NEARLY 19 POUNDS PER CWT.

(B) THE RUN-UP IN FEED COSTS OVER THE PAST YEAR (THE 5-10 PERCENT SOFTENING OF PRICES IN THE MARCH-JULY PERIOD PROVED ONLY A SHORT-LIVED RESPITE) AND THE US PROSPECTS COMBINED WITH A TIGHT WINTER HAY AND FORAGE SITUATION, PLACES PRODUCERS ON A RISING COST CURVE FOR THE COMING WINTER.

(C) OTHER COSTS SUCH AS FUEL AND FERTILIZER JUMPED MARKEDLY ALSO. INTERNAL RATES OF 15-18 PERCENT ARE A PARTICULAR STRAIN ESPECIALLY ON THOSE LIVESTOCK FARMERS WHO EXPANDED IN 1972 AND 1973.

(D) A GROWING AWARENESS AMONGST FARMERS THAT UNLIKE DURING THE DAYS OF GUARANTEED PRICES AND DEFICIENCY PAYMENTS, THEY ARE MUCH MORE EXPOSED TO MARKET VAGARIES AND GOVERNMENT DECISION-MAKING IS NOW A COLLECTIVE EXERCISE WITH THE UK MINISTER HAVING ONLY AN INPUT RATHER THAN THE FINAL SAY. THE APPARENT INCREASE IN MARKET INSTABILITY INTRODUCES A RISK FACTOR WHICH FORCES MANY LIVESTOCK FARMERS TO TAKE A MORE CONSERVATIVE POSITION WITH REGARD TO EXPANSION.

2. LIVESTOCK FARMERS SEEK RELIEF FROM EXPECTED INCOME DROP:

THE NATIONAL FARMERS' UNION, IN A MEETING ON SEPTEMBER 2 WITH AGMINISTER PEART, STATED THAT LIVESTOCK FARMERS SPENDABLE INCOME WOULD DROP 50 PERCENT - MORE THAN 400 MILLION POUNDS -THIS YEAR. THE NFU CALLED FOR A GOVERNMENT CASH INJECTION TO OFFSET THE DECLINE AND PREVENT FURTHER CUTBACKS IN PRODUCTION. WHILE THE UK HAS NAD HAD THE VOCIFEROUS DEMONSTRATIONS SEEN IN SOME PARTNER COUNTRIES, THE MOOD OF THE PRODUCERS IS IMPATIENT AND SOME SCOTTISH FARMERS HAVE THREATENED "EUROPEAN"

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PAGE 03 LONDON 11339 01 OF 02 042006Z

TACTICS. THE NFU ASKED PEART TO SEEK:

(A) A SUBSTANTIAL INCREASE IN THE GUARANTEED PRICE FOR MILK. NO FIGURE WAS RELEASED BUT THE 8 PENCE PER GALLON RECOMMENDED BY THE COMMONS ALL-PARTY SUB-COMMITTEE LAST WEEK IS UNDERSTOOD TO BE ACCEPTABLE TO FARMERS.

(B) CONTINUATION OF THE 50 PENCE PER SCORE SUBSIDY FOR PIGS.

(C) A BEEF GUARANTEE PRICE EQUAL TO THE EC INTERVENTION PRICE.

(D) CORRECTION IN ANOMALIES WHICH ALLOW FRENCH EGGS INTO
BRITAIN BUT NOT VICE-VERSA, AND CONSIDERATION OF HEADAGE
PAYMENTS TO POULTRY PRODUCERS.
(E) THE SETTING OF THE POUND AT CURRENT REAL VALUES TO THE
UNIT OF ACCOUNT FOR CALCULATION OF BORDER TAXES AND GUARANTEES.

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PAGE 01 LONDON 11339 02 OF 02 042004Z

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TRSE-00 CIAE-00 INR-11 NSAE-00 RSC-01 PA-04 PRS-01

USIA-15 SWF-02 DRC-01 /101 W
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FM AMEMBASSY LONDON
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UNCLAS SECTION 2 OF 2 LONDON 11339

3. DETERIORATING DEMAND -- KEY TO CRISIS:

DESPITE LARGE INCREASES IN DOMESTIC PRODUCTION, OVERALL
SUPPLIES OF MEAT (AS SHOWN BELOW) MAY BE LITTLE CHANGED
FROM 1973 BECAUSE OF THE SHARP DROP IN IMPORTS NOW EXPECTED.
FALLING LIVESTOCK PRICES MAY THEREFORE BE REFLECTING PRIMARILY
THE DETERIORATION IN DISPOSABLE INCOMES.

MEAT SUPPLIES

	BEEF	PIGMEAT	SHEEPMET	POULTRY
PRODUCTION	2280	2220	555	590
NET TRADE	500	1080	500	5
TOTAL	2680	3300	1055	595
CHANGE FROM 1974		UNCH.	UNCH.	UNCH.

PLUS 4 PERCENT

DISPOSABLE INCOME AND THE DEMAND FUNCTION FOR MEAT ARE EXTREMELY DIFFICULT TO MEASURE, BUT THE APPEARANCE OF DECLINING REAL INCOMES IS CONFIRMED BY A RECENT ARTICLE IN THE "ECONOMIST"
UNCLASSIFIED

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PAGE 02 LONDON 11339 02 OF 02 042004Z

WHERE TYPICAL COMPOSITES SUCH AS LAWRENCE PITTS, THE MIDDLE MANAGER, HAS SEEN HIS EXPENDITURE RISE 4.7 PERCENT SINCE MARCH WHILE HIS AFTER TAX INCOME HAS FALLEN 2 PERCENT MAKING HIM 6 & ONE-HALF PERCENT WORSE OFF IN LESS THAN A HALF-YEAR. DAVID PITTS, THE BACHELOR TEACHER, HAS SUFFERED A 7 & ONE-HALF PERCENT DECLINE IN REAL INCOME, WHILE JAMES FITTER, THE FACTORY ELECTRICIAN, IS 2 & ONE-HALF PERCENT WORSE OFF. SOME PENSIONERS, HOWEVER, HAVE EXPERIENCED REAL INCOME GAINS SINCE MARCH.

DESPITE THE ABOVE, MEAT WITHIN THE "GROCER" SHOPPING BASKET IS RELATIVELY LESS EXPENSIVE AS SHOWN BELOW:

PERCENT CHANGE SINCE 8/23/73

ALL FOODS	PLUS 17.1 PERCENT
PROCESSED FOODS	24.7 PERCENT
OF WHICH MEAT	11.7 PERCENT
FRESH FOODS	8.9 PERCENT
OF WHICH MEAT	2.2 PERCENT

THE RETAIL PRICE INDEX ALSO SHOWS A 17 PERCENT INCREASE IN THE PAST YEAR FOR ALL ITEMS. MEAT WHICH IS ONLY RELATIVELY CHEAPER HOWEVER, MAY STILL BE TOO EXPENSIVE FOR MANY. THE FUTURE IS EVEN LESS PROMISING. BOTH THE NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH (NIESR) AND THE LONDON BUSINESS SCHOOL RELEASED FORECASTS LAST WEEK, AND BOTH PREDICT STAGNANT OUTPUT, LITTLE IMPROVEMENT IN THE BALANCE OF PAYMENTS, INFLATION CONTINUING AT A VERY HIGH RATE AND UNEMPLOYMENT RISING TO 8-900,000 OR FOUR TIMES ITS PRESENT LEVEL.

WHILE DOMESTIC PORK AND POULTRY PRODUCTION COULD FALL SHARPLY NEXT YEAR IN LAGGED REPLY TO FALLING DEMAND, BEEF SUPPLIES ARE CURRENTLY FORECAST TO RISE A FURTHER 6-8 PERCENT. THIS COMBINED WITH A RETURN TO A MORE OPEN IMPORT MARKET COULD MAKE 1975 THE YEAR OF THE BIG BEEF GLUT. SOHM

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LIVESTOCK, PRODUCTION, TRADE, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LONDON11339
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740245-0296
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740976/aaaacmog.tel
Line Count: 214
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AGR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 12 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 JUL 2002 by maustmc>; APPROVED <18 JUL 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LIVESTOCK CRISIS - UK LONDON TOFAS 359 (8/19/74) WHICH COVERED NUMBERS, PRODUCTION
TAGS: EAGR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005